

Nigeria Development Update

Beyond the Federal Purse:
How Higher Revenues
Shaped State Priorities



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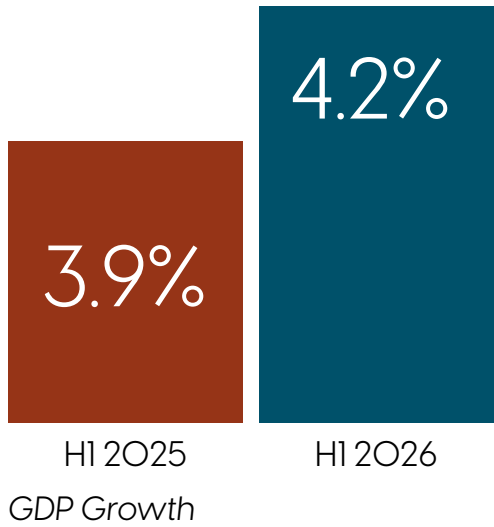
Beyond the Federal Purse: How Higher Revenues Shaped State Priorities



Macroeconomic Performance and Fiscal Outlook

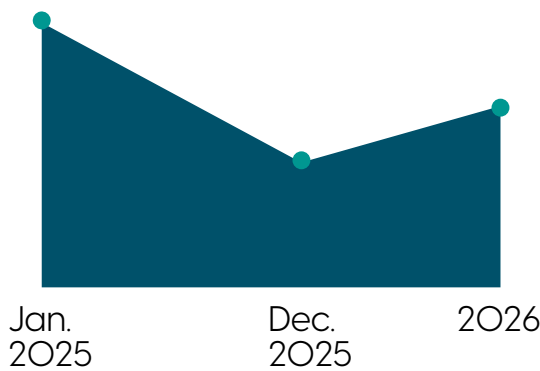
01 Nigeria’s economic growth strengthened in the first half of 2026

Real GDP grew by 4.2% in H1 2026, compared with 3.9% in H1 2025. The main driver of growth was services, while agriculture recorded a stronger performance. However, sustained growth will depend on improved infrastructure, productivity, security and human capital development.



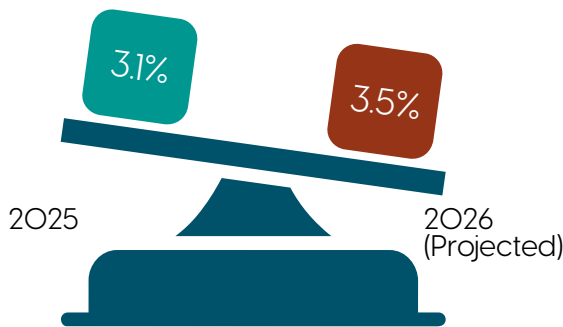
02 Inflationary pressures remain a major challenge despite earlier progress:

Inflation declined from 27.6% in January 2025 to 15.2% in December 2025, but subsequently hovered around 15.5% year-on-year from February 2026. Food inflation reached 19.6% in August 2026, up from 8.9% in January. This threatens household purchasing power and can undermine poverty reduction.



03 Nigeria’s fiscal deficit is projected to widen despite higher revenues

The consolidated fiscal deficit is projected to increase from 3.1% of GDP in 2025 to 3.5% in 2026. Rising state capital spending, alongside federal personnel, interest and pre-election spending pressures, is expected to outweigh stronger revenues. This highlights the need to align expenditure commitments with sustainable financing.



04 Debt-service costs continue to constrain fiscal space:

Although Nigeria’s public debt is considered moderate at around 40% of GDP in 2025, debt-service obligations continue to limit the resources available for development spending. The implication is that revenue growth alone will not resolve fiscal constraints unless borrowing costs, debt management and expenditure efficiency also improve.



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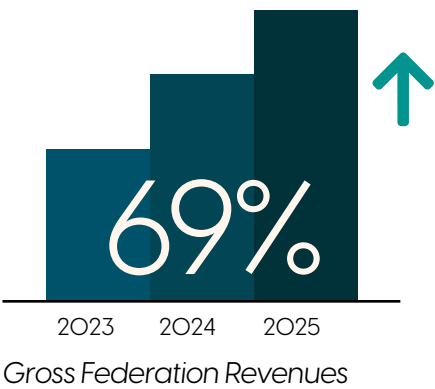
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State Revenues and Fiscal Autonomy

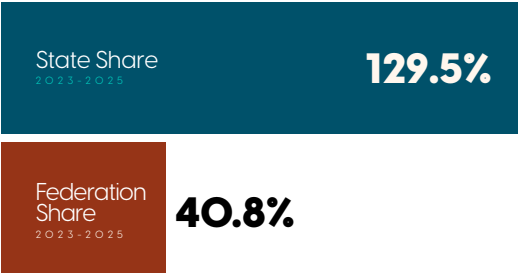
01 Federation revenues increased substantially following reforms introduced since 2023

Gross federation revenues increased by 69% in real terms between 2023 and 2025, while net distributable revenues rose by 60%. Exchange-rate unification, petrol subsidy removal and stronger tax administration contributed to the expansion. These changes created additional fiscal space for federal, state and local governments.



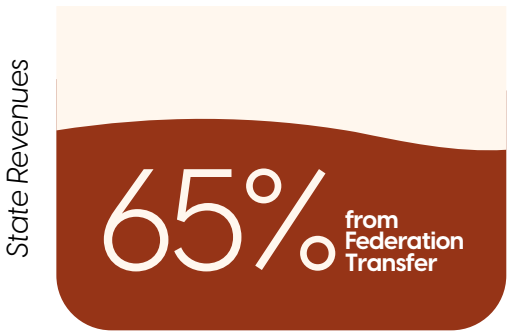
02 State governments were the principal beneficiaries of increased federation distributions

Between 2023 and 2025, the states’ share of federation revenues increased by approximately 129.5% in real terms, from N3.21tn to N7.37tn in constant 2019 prices. By comparison, the Federal Government’s share grew by 40.8%. This significantly expanded the resources available to state governments.



03 Most states remain heavily dependent on federation transfers:

Federation transfers accounted for 65% of aggregate state revenues over 2021–2025 and represented more than three-quarters of revenue in all but a few states in 2025. This leaves most states vulnerable to changes in federally shared revenues and limits their fiscal independence.



04 IGR is growing, but not fast enough to reduce dependence on transfers:

Aggregate state IGR increased by 55% in real terms between 2023 and 2025, below the 69% growth in gross federation revenues. IGR also remains too narrow to cover recurrent expenditure in most states. The report identifies broadening the tax base, improving compliance and strengthening digital tax administration as priorities.



05 Only Lagos and Enugu States generated enough IGR to cover recurrent costs

Lagos and Enugu were the only states whose IGR was sufficient to cover recurrent expenditure. This indicates the limited revenue autonomy of most states and the need to improve the sustainability of their domestic revenue systems.



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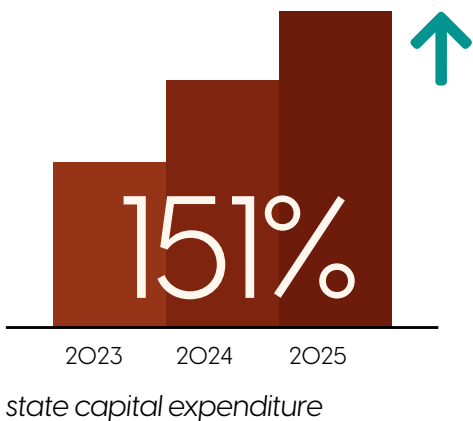


State Expenditure Priorities and Service Delivery

01

State governments have substantially increased capital expenditure

Between 2023 and 2025, state capital expenditure increased by 151% in real terms, with its share of total expenditure rising from approximately 47.5% to 61%. This indicates a clear shift towards investment rather than recurrent spending. However, the impact will depend on project quality, implementation and maintenance.



02

Transport infrastructure received the largest increase in spending

Transport, particularly road infrastructure, accounted for the largest increase in state expenditure. Housing and community amenities, agriculture, and energy also received increased investment. These investments can address infrastructure gaps, but their value depends on whether projects respond to development needs and generate measurable economic benefits.

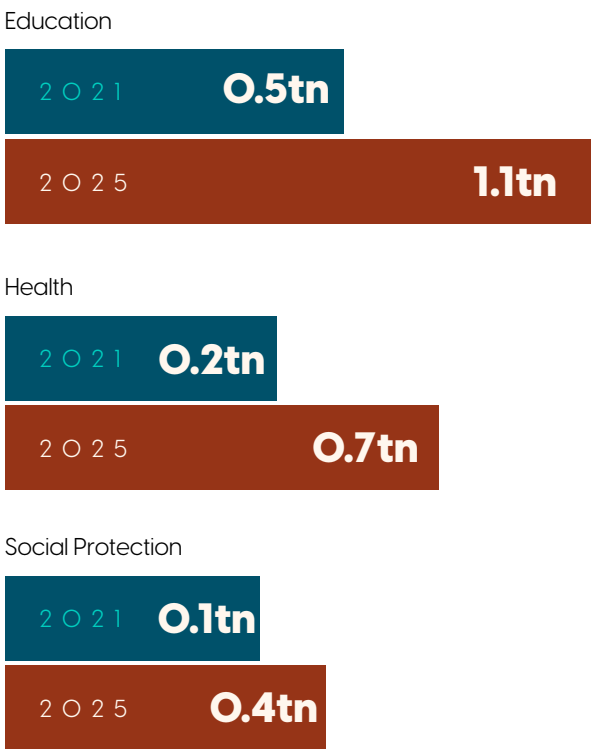


03

Social-sector spending has grown more slowly than infrastructure spending

Although education, health and social protection spending increased in real terms, their shares of total expenditure did not keep pace with infrastructure investment.

- Education spending rose from approximately N0.5tn in 2021 to N1.1tn in 2025, but its share of total expenditure fell from 14.9% to 12.1%.
- Health spending rose from N0.2tn to N0.7tn, while its share declined from 7.4% to 7.1%.
- Social protection spending increased from less than N0.1tn to about N0.4tn, raising its share from 1.4% to 4.4%.



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Fiscal Transparency, Budget Execution and Accountability

01

Fiscal transparency has improved significantly across states

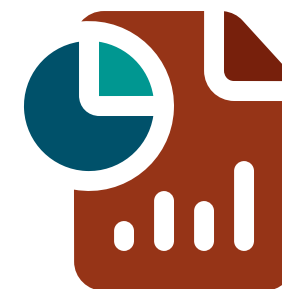
Nearly all states now publish annual budgets, quarterly Budget Implementation Reports (BIRs) and audited financial statements. Many also produce citizens' budgets, Debt Sustainability Analyses and Debt Management Strategies. Standardised reporting has improved the ability to compare fiscal performance and track public resources.



02

Better reporting has exposed persistent weaknesses in budget credibility

Many state budgets set expenditure targets that exceed realistic financing and implementation capacity. Actual expenditure often differs significantly from approved allocations, particularly for capital projects. Supplementary budgets and in-year reallocations can also weaken the budget's credibility as a statement of government priorities.



03

Weak expenditure controls can result in delayed projects and unpaid obligations:

Cash-flow forecasts, procurement plans and expenditure commitments are not consistently integrated. When agencies commit to spending without confirmed funding, governments risk payment delays, stalled projects, contractor claims and the accumulation of expenditure arrears. Stronger cash management and commitment controls are therefore essential.

